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How did we get here?

A brief history of Indiana's finances

Gov. Frank O'Bannon called a special legislative session this year to deal with escalating problems in the state budget. Indiana used to have a budget surplus. What has changed?

After the longest economic expansion on record in the 1990s, Indiana's coffers were full to overflowing. Legislators opted to cut taxes rather than keep such a large surplus, and returned over \$1.5 billion in taxes since 1996. Those cuts aided homeowners, renters, the working poor, senior citizens, and others in our state.

By January of 2000, though, the national economy was slowing. Within a few months it was clear that our country's finances were taking a turn for the worse. With Medicaid spending on the rise, 17 states faced budget shortfalls by Fiscal Year 01, Indiana among them. Last July Gov. O'Bannon ordered \$113 million in one-time cuts in an effort to address the growing budget deficit.

The terrorist attacks last September only exacerbated the situation. Consumers spent less. Business slowed, cutting production and cutting jobs. That meant less money flowed into the state accounts from sales taxes, inventory taxes and individual and corporate income taxes.

In May of this year, Indiana revenue collections were 14.7 percent below expectation. Ouch! Imagine if your paycheck were 14 percent smaller this month. You would find ways to cut back, and then you would re-evaluate your situation. Gov. O'Bannon did just that.

Gov. O'Bannon made a total of \$949 million in spending cuts in Fiscal Year 02, but our state was still in the red. The legislature met to re-evaluate. House Bill 1001 is the result.

O'Bannon made drastic cuts to maintain the integrity of the state budget.

Special session ends with success

New plan to cut property taxes, attract business to state



After months of debate, lawmakers have approved a historic plan that will cut property taxes, preserve education funding and other vital state services, and help create and attract new jobs.

In the final days of the special session of the 2002 Legislature called by Governor O'Bannon, members of the House and Senate passed a bipartisan program that will provide answers to several serious questions facing Indiana.

This plan, contained in House Bill 1001, will provide funding to help support critical state programs and services. It will also restructure our state's tax code to provide additional economic incentives to help create more jobs for the Hoosier state.

Another crucial part of HB 1001 is the relief it will provide for home, farm and business owners from the court-ordered property reassessment. For homeowners, most of this relief will come through shifting 60 percent of school operating costs to the state, implementing a standard deduction on all homes of \$35,000, and increasing the homestead credit to 20 percent. These changes will help reduce residential property tax rates by double digits.

This plan calls for an increase in the earned income tax credit to help working

families on lower incomes and offers renters a break through an increase in the deduction they can take on their state income tax returns.

In addition, HB 1001 makes significant strides in changing Indiana's tax code to encourage economic development. We will be eliminating the state's corporate gross income tax on January 1, 2003, and the inventory tax over the next five years. These changes will play a major role in getting Indiana businesses to expand and convincing out-of-state companies to locate here, key factors in creating new jobs for Hoosier men and women.

Finally, we make several changes in the state's gaming industry that can help Indiana remain competitive with neighboring states. Riverboat operators will be given the option of whether to allow continuous access to casinos, a process commonly known as dockside gaming. The bill also creates a revenue sharing plan that

Property tax reform

- Increases Homeowners Exemption from \$6,000 to \$35,000
- Eliminates 60 percent of School General Fund Levy through state-paid Property Tax Replacement Credit
- Increases Homestead Credit from 4 percent to 20 percent
- Establishes new 20 percent Property Tax Replacement Credit on all individual and business real property

will enable all Indiana counties to get a share of the proceeds generated by the riverboats.

While I am pleased with many of its provisions, HB 1001 does not contain all the reforms I would have liked. I am going to continue to push state government to protect families and homeowners and shore up more reserves in case the economy is slow to rebound. We must continue to work on long-term solutions that can keep our state moving forward.

Goodin to revive pledge bill

Many of you have contacted me with concerns over the recent federal appeals court ruling the Pledge of Allegiance unconstitutional. I share your frustration and plan to reintroduce legislation that will allow students in Indiana's public schools to recite the Pledge as part of their daily activities.

My proposal, which would be considered during the 2003 session of the Indiana General Assembly, would enable Hoosier children to honor their country at the start of each school day by stating the Pledge. A similar measure received committee hearings during the 2002 session, but I chose not to press for a vote because of the large number of amendments that were going to be added to the bill. I felt these amendments would hurt the integrity of the bill. At that time I did not realize that this simple expression of patriotism would drive some judges into a frenzy.

On June 26, the Ninth U.S. Circuit Court of Appeals ruled that the "one nation under God" phrase in the Pledge was unconstitutional, although the judge who authored the opinion later stayed his own order pending a full court appeal. If allowed to stand, the court's decision would impact children in nine western states, not Indiana. It is my hope these judges will eventually come to their senses and realize the importance of the Pledge of Allegiance in helping Americans demonstrate a renewed loyalty to their country.

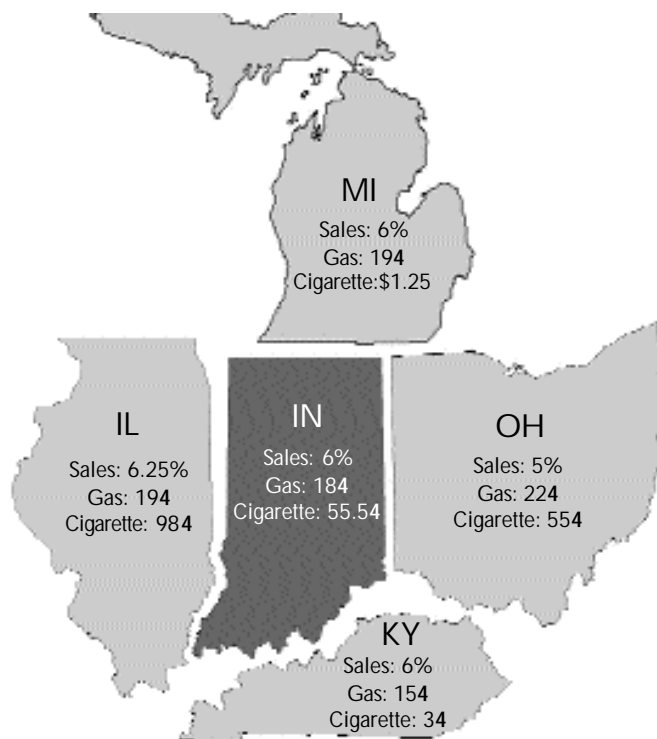
Economic development for Indiana

House Bill 1001 assists economic development across Indiana, and it couldn't come at a better time. The bill creates more jobs for Hoosiers by eliminating the inventory tax over a five-year period and removing the corporate gross income tax.

The new bill also helps businesses take advantage of the latest technology. It allocates tax credits to companies that provide venture capital to startup firms, doubles the state's research and development tax credit to 10 percent and provides \$30 million for the 21st Century Research and Technology Fund for 2003 and 2004.

The impact of these changes will be felt in the years to come. With the provisions for economic development in House Bill 1001, Indiana is back on track.

How does Indiana rank with its neighbors?



Data from the Federation of Tax Administrators

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